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AFP TREASURY IN PRACTICE GUIDE

Better Bank Fee Analysis: Making an Onerous Process Easier



INTRODUCTION

Analyzing bank fees tends to be a tedious, onerous process, but it's worth it — a comprehensive analysis can yield substantial cost savings. When done correctly, bank fee analysis can reduce a company's annual spending on bank services by tens of thousands—even millions — of dollars. A complete analysis allows a corporation to uncover pricing errors, close unnecessary or obsolete accounts, and discontinue unwanted or irrelevant services.

Beyond helping to control and cut costs, bank fee analysis has other benefits, too:

- It provides transparency into bank fees and allows corporations to check their fees against their bank agreements.
- It yields important, strategic pricing information that businesses can use in negotiating with banks.
- It sheds light on inefficient, costly processes that need restructuring or streamlining.
- It offers insight into all activities of a treasury department, which helps with cost allocation and reporting.

But the data needed for bank fee analysis is often difficult to obtain. It may not be readily accessible from one place, it may be inconsistent in formatting and content, and it can be hard to understand. Moreover, there's a lot of it. Treasury departments must look at hundreds of line items on their statements, especially if they use multiple banks. Analyzing all that data requires more time and capacity than many treasury groups have. Hence, many companies forego fee analysis and simply pay their banking invoice automatically, without even looking at it.

Treasury groups can take a few steps, however, to make bank fee analysis feasible — and in the end, profitable.



Regularly monitor fees, and alert your bank to any mistakes

For every bank and every account, bank fees must be tracked monthly to ensure they are correct and to identify any dormant accounts. The fee data should be compared to previous months' data if available. Fees must also be checked against existing bank agreements to confirm that they align with those agreements. This step is particularly important when a company adds a new bank or a new service.

Charging incorrect fees is usually not deliberate; banks may inadvertently change a fee or apply the wrong fee to a client or service. Sometimes a bank's operations department adjusts fees without telling its relationship managers. When an incorrect fee is discovered, it's important to let the bank know right away so the bank can not only fix the mistake, but also find its root cause.

"We tell the bank, 'You've charged too much for this, and you've charged too little for this,' so that we have some accountability with the bank," said Frank D'Amadeo, Director of Treasury Operations at electric utility company Con Edison. "We don't feel bashful about telling them when we think they've overcharged us." His treasury team has reason to do so: Con Edison currently pays about \$1 million a year in bank fees.

One of the best ways to detect and correct mistakes is to request invoices from your bank. Most banks simply deduct fees from accounts automatically, without obtaining approval from the customer. When the fees are incorrect, getting them credited back to an account can take months. If the fees extend to the prior year, recovering them can be even harder, especially if the amount is substantial. Treasury departments can avoid such problems by requesting regular invoices. After they approve the invoice, they can pay it electronically.

Create and maintain a table of bank rates

Once they're monitoring and comparing fees each month, treasury groups can begin to understand what they should pay for each service. Then they can rationalize their bank relationships and the services they are buying.

Using data from all bank relationships as well as research, benchmarking studies and RFPs, treasury groups can create a table or matrix of bank rates so they can compare and contrast each bank's pricing. Some banks charge by transaction, some charge monthly, and some services have "multiple fee components," D'Amadeo pointed out, so the table must be designed to compare comparable things.

But this objective is difficult to accomplish when pricing varies widely across banks. Moreover, interpreting and comparing pricing requires understanding the codes for each service that incurs a fee. Bridget Meyer, Senior Director and Head of Strategic Relationships at RedBridge, a treasury consultancy, lamented the inconsistent pricing of the same services by different banks. She noted, "As a treasury analyst, I have to understand why a straightforward, commodity product like lockbox is priced differently for providing the same services. You'll see 20 line items on one bank's bill and 200 on another bank's bill. How do you reconcile that and decide how to award business?"



Automate the process

Automating bank fee tracking and analysis makes the process far easier and less prone to human error. To enable automation, treasury groups can implement bank fee software and then ask their banks to provide EDI 822, TWIST BSB or ISOXML camt.086 files — electronic statements — instead of PDFs. The electronic statements can be downloaded into the software, and from there, treasury teams can create their own reports. Then they can drill down by bank account and product level and set up different levels of reporting.

They can use these reports to automatically compare volume and pricing against contract pricing as well as prior months' data to find any discrepancies, such as an unusual number of rejects from a lockbox or a spike in wire transactions. Whenever a treasury manager notices a change that cannot be operationally explained — for example, a higher volume of wire payments at the end of a fiscal quarter — it's time to track it down.

Some treasury groups lack the time, resources, and capacity to undertake a thorough bank fee analysis. In such cases, companies may consider engaging a third-party consultant to assist with the analysis, or they may deploy an account analysis solution from a vendor. Using bank fee software has an upfront cost, but the payback in savings can be relatively quick once treasury groups understand their internal processes, the services needed to optimize them, and what they should spend on those services.

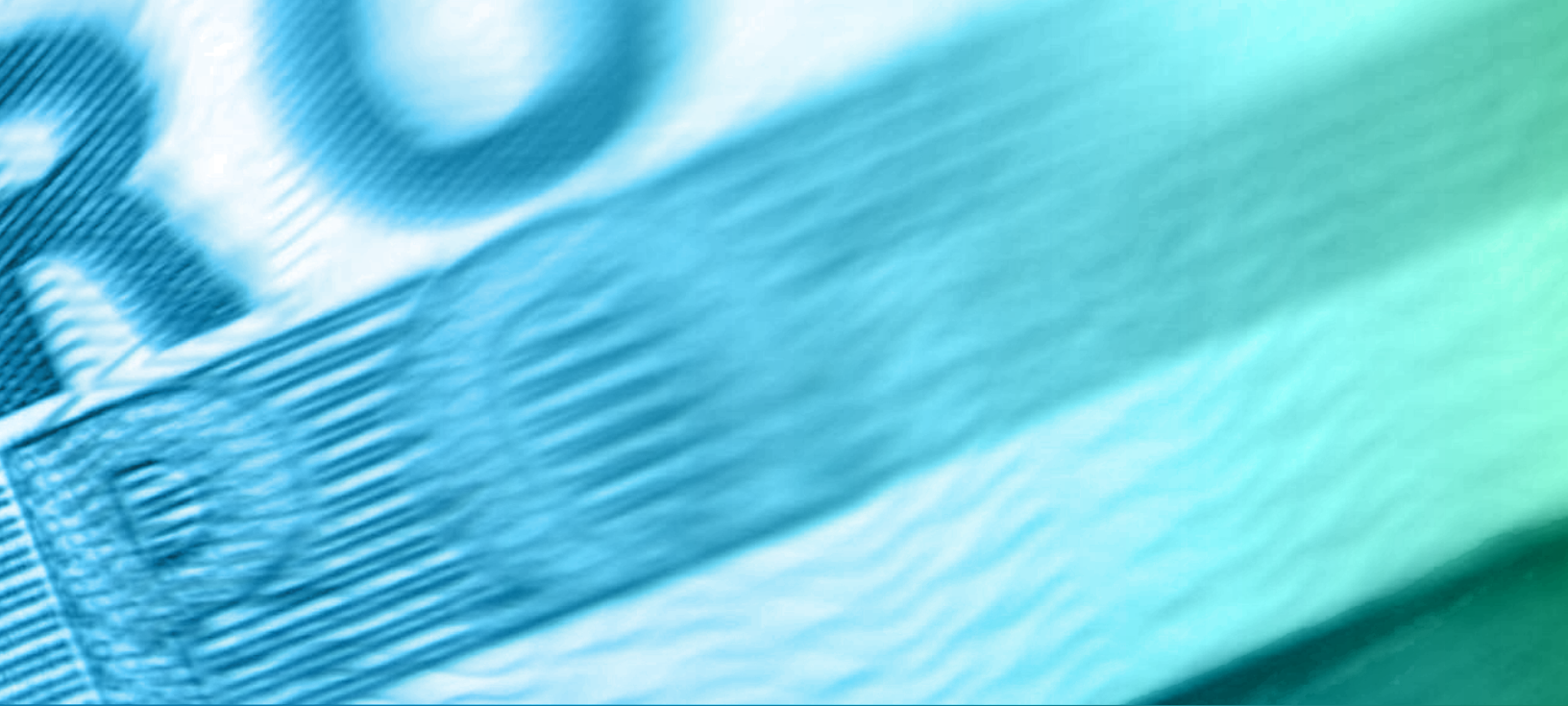
Ask your bank to use current AFP codes

The codes and descriptions that banks use to designate each of their services are often inconsistent and even incomprehensible. Fortunately, there's a ready solution: AFP codes. AFP codes are standardized codes for every bank service. They are essentially a dictionary of treasury management.

Since their creation in 1986, AFP codes have been updated regularly. Yet many banks are still using a long-outdated version of the codes. “We have large, money-center banks still using the 2008 version of the AFP service codes for their clients,” Meyer observed.

When banks use their own esoteric service codes or outdated AFP codes, services and fees often seem like a densely forested maze. It's nearly impossible to assign fees correctly for comparison to past data or other banks' services. “You would need the Rosetta stone of service codes to translate bank fees,” commented Todd Yoder, Global Managing Director of Strategic Finance and Treasury at Fluor Corporation, a multinational engineering, procurement, and construction firm. Fluor has hundreds of bank accounts at banks around the world, making fee analysis a daunting task.

Opaque service codes and fee structures can cause companies to be double- or even triple-charged for the same service. To resolve this issue, treasurers can first find out what each service line item is and then decide whether to keep it. Asking banks to define or write a description of each service they provide will clarify what treasury is paying for.



Track fees from international accounts

Internationally, it's even harder to track bank fees. Many banks overseas lack the systems needed to issue the global equivalent of electronic files in the U.S., although this is changing rapidly.

"We have reached the tipping point in bank fee reporting globally," said Meyer, who chairs the CGI-MP (Common Global Implementation - Market Practice) working group that is dedicated to ensuring consistent adoption of the industry-standard camt.086 billing format. "Banks cannot say they are a leader in technology if they cannot produce a basic bank fee report in the ISO 20022 industry standard more than 10 years after it was published."

It is not mandatory to use AFP Global Service Codes in the ISO 20022 standard billing format, but many banks that offer the TWIST BSB or camt.086 file format are providing the codes in ISO 20022. "In Asia, and certain other markets, we are even seeing banks adopt the AFP service descriptions as names for the services rather than coming up with something proprietary," Meyer reported.

More and more large enterprises are demanding electronic bank fee files for all their global cash management activity. To gain this visibility into their accounts, companies should enroll as soon as possible in electronic bank fee reporting. This capability does not come by default, and banks cannot retroactively produce the files. If a company has international banking relationships, its treasury group can request these statements from bankers. The group can then find out how much is paid monthly for each account and attribute those fees to the appropriate lines of business.

Work with your banks

Tracking fees is onerous, but banks do not have the resources to do it all themselves. For instance, Citi has reduced and rationalized its codes from 41,000 to 2,500, but the project took two years and a dedicated product management team. As an AFP-accredited service code provider, Citi's team spends numerous hours a year with their AFP partner to update and map all service codes accurately to the latest AFP standard, according to Pradyumna Deshpande, Senior Vice President and Head of Sales Enablement and Revenue Management at Citi Treasury and Trade Solutions.

When a new product is launched, Deshpande and his team proactively work with Citi's product development teams to understand "what is being launched and what services the new product or solution provides," he said. "Then we work with AFP to categorize and assign the right service code. Each year, we again work with AFP to review and certify our entire code-set globally. As an AFP-accredited provider, we see the value of globally-consistent service codes and want to bring additional transparency to our clients."

Deshpande and his colleagues recognize that banks and treasury groups benefit from working together on service codes and fees. Banks gain insight into treasury groups' activities and strengthen their client relationships, while treasury groups acquire a deeper understanding of their own processes — as well as strategic information about their operations. Analyzing and rationalizing service codes and bank fees can save companies millions — something that should be considered when putting together an RFP for banking services.

CONCLUSION

Monitoring and analyzing bank fees can be a treasury analyst's most challenging task. As a rule, only very large companies can justify dedicating staff to this challenge due to the amount they spend on bank fees. But the savings realized can pay many times over the cost of maintaining dedicated staff, especially for smaller, Fortune 1000 companies. Companies can cut their bank fee spending by an average of 10% by analyzing them — and even more if they issue an RFP as part of the process.

The ROI of fee analysis depends on the complexity of a company's account structures and the total amount it pays in bank fees. Organizations that must maintain multiple accounts and services, like insurance firms and healthcare providers, usually have a more sophisticated approach to analysis, whereas a large manufacturing company can get away with a lot less.

No matter the method, finding savings of 10% or more can turn treasury professionals into heroes to their organization. It's worth the time and resources you need to invest.

Using data from all bank relationships as well as research, benchmarking studies and RFPs, treasury groups can create a table or matrix of bank rates so they can compare and contrast each bank's pricing.





TAKEAWAYS

- **Track all bank fees, and review your account structure.** Often companies find dormant accounts that are accumulating fees, or they can rationalize their banking relationships and save money in the process.
- **Ask for a separate invoice for fees** and avoid auto-deduction if possible.
- **Compare current expenses to historical data — from six months to a year — to uncover discrepancies.** Focus on volume and rate to spot mistakes.
- **Diligently and promptly follow up with banks on any discrepancies.** Insist that your bank correct them, but remember that the longer it takes to analyze the fees, the harder it is to get your money back.
- **Negotiate and set up an explicit bank fee agreement with each bank.** The agreement should list the bank's services and the cost per service to ensure that the bank follows the agreed-upon rates.
- **Automate the process by obtaining TWIST BSB, EDI 822 or camt.086 files.** Finding mistakes can pay for an automated system several times over.
- **Maintain an active rate table for all bank fees as a reference.** Update it when new services or accounts are added, or when your banks change their rates.
- **To make sure you're getting the best rates, issue an RFP or work with outside consultants to review benchmarking data.** Don't be afraid to negotiate better terms based on what a service should cost.
- **Understand each line item's "service code" so you can identify the services you're paying for and how much you're paying for them.** Ask the bank to provide you with its list of descriptions for those codes. These descriptions may differ from the description provided with the corresponding AFP code.
- **Ensure that your bank's service codes conform to the updated AFP standard service codes,** or take the time to map your bank's codes to AFP codes to compare services and fees.
- **Ask your bank if it is an AFP-accredited provider or plans to become one.**
- **Remember that analyzing fees can save your organization millions — and give you the opportunity to shine.**

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